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7   IN THE UNITED STATES DISTRICT COURT

8   FOR THE NORTHERN DISTRICT OF CALIFORNIA

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10   MOORTHY, RIGGS & ASSOCIATES, a   No. C 04-5115 CW
     California corporation,
11   ORDER DENYING
                Plaintiff,   DEFENDANTS'
12   MOTION TO AMEND
          v.   COUNTER-CLAIM
13   AND DENYING AS
     NORMAN MCINTOSH and NJ PURSUITS,   PREMATURE
14   DEFENDANTS'
                Defendants.   MOTION FOR
15   SUMMARY JUDGMENT
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18   On April 7, 2005, Defendants Norman McIntosh and NJ

19   Pursuits filed a motion for summary judgment on their counter-

20   claim for declaratory judgment that NJ Pursuits is the owner of

21   certain source code. On April 15, 2005, Defendants filed a

22   motion for leave to file an amended counter-claim to add a party

23   and claims. Plaintiff Moorthy, Riggs and Associates opposes

24   both motions. The matters were heard on May 20, 2005. Having

25   considered the parties' papers, the evidence cited therein and

26   oral argument on the motions, the Court DENIES Defendants'

27   motion for leave to file an amended counter-claim and DENIES as

28   premature Defendants' motion for summary judgment.

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BACKGROUND

Plaintiff is a Tiburon, California-based company that provides data relating to products and services offered by financial institutions. Plaintiff provides the data to its clients in the form of reports that are available over Plaintiff's web site. For several years, McIntosh was the administrator of Plaintiff's web site, and he maintained some of the hardware necessary for the site's operation. NJ Pursuits is a company owned by McIntosh.

On November 10, 2004, Plaintiff entered into a purchase agreement with Informa Research Services, Inc. (Informa) whereby Plaintiff agreed to transfer its assets, domain name, and intellectual property rights to Informa for an amount in excess of $500,000. Plaintiff submits evidence that, on November 22, McIntosh was informed of the purchase agreement. On the morning of November 24, Plaintiff was told by one of its clients that the web site was not functioning properly, and that the client could not access the data reports. On the morning of November 26, McIntosh sent an email to Plaintiff in which he demanded over $40,000 for unpaid work that he had allegedly performed. The next day, McIntosh sent Plaintiff another email in which he stated that he was the true owner of Plaintiff's web site; later that day, the web site became entirely inaccessible to Plaintiff and its customers. When the web site was restored on November 28, Plaintiff's two chief executive officers could no longer log onto the site, and Plaintiff was informed by several clients that they were similarly unable to access the web site's

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1   services.

2   On December 2, 2004, Plaintiff filed a complaint against

3   McIntosh and NJ Pursuits alleging (1) violations of the Computer

4   Fraud and Abuse Act, (2) intentional misrepresentation,

5   (3) conversion, and (4) intentional interference with

6   contractual relations. Also on December 2, Plaintiff moved for

7   a temporary restraining order. On December 3, the Court issued

8   a temporary restraining order (TRO) directing McIntosh to return

9   all of Plaintiff's property, "including, without limitation, all

10 computers, databases, data storage media, software, source code,

11 applications, historical files, web sites and all data storage

12 media."

13   On December 8, Defendants moved for clarification of the

14 TRO. Specifically, Defendants requested clarification on

15 whether they were required to return to Plaintiff unidentified

16 source code that allegedly allowed Plaintiff's web site to

17 function. In that motion, Defendants argued that McIntosh was

18 the owner of the alleged source code. On December 13, the Court

19 issued an order stating that the purpose of the TRO was to allow

20 Plaintiff to continue to maintain its web site, free from

21 McIntosh's interference; thus, Defendants were obliged to return

22 all material required for the web site to function. The Court

23 noted that Defendants might not prevail on their claim that they

24 own the alleged source code and, because the issue of the source

25 code's ownership had not been resolved, the Court included the

26 following language in its order: "Plaintiff may not disclose the

27 source code to third parties or use the code for any purpose

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1 other than maintaining its web site until further order of the

2 Court."

3   On December 14, the parties and Informa entered into a

4 confidentiality agreement which stated that Defendants had

5 provided the alleged source code to Plaintiff and Informa for

6 the purpose of permitting both Plaintiff and Informa to operate

7 the web site, and that the alleged source code was confidential

8 and could only be used by Plaintiff and Informa for that

9 purpose. On December 17, at the preliminary injunction hearing,

10 the parties indicated that they were close to reaching an

11 agreement on a stipulated preliminary injunction. Based on

12 their agreement, the Court extended the TRO until such time as

13 they could do so.

14   On January 3, 2005, Defendants answered the complaint and

15 counter-claimed for declaratory judgment that NJ Pursuits was

16 the rightful owner of the alleged source code that enables

17 Plaintiff's web site to function. On February 14, the parties

18 submitted a stipulated preliminary injunction that required

19 Defendants to return Plaintiff's property, including software

20 enabling Plaintiff's web site to function, but which contained

21 the following provision: "this Order shall not be construed as

22 determinative of the issue of ownership of the source code used

23 to operate Plaintiff's web site."

24   LEGAL STANDARD

25   Federal Rule of Civil Procedure 15(a) provides that leave

26 of the court allowing a party to amend its pleading "shall be

27 freely given when justice so requires." Leave to amend lies

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1 within the sound discretion of the trial court, which discretion

2 "must be guided by the underlying purpose of Rule 15 to

3 facilitate decision on the merits, rather than on the pleadings

4 or technicalities." United States v. Webb, 655 F.2d 977, 979

5 (9th Cir. 1981) (citations omitted). Thus, Rule 15's policy of

6 favoring amendments to pleadings should be applied with "extreme

7 liberality." Id.; DCD Programs, Ltd. v. Leighton, 833 F.2d 183,

8 186 (9th Cir. 1987) (citations omitted).

9   The Supreme Court has identified four factors relevant to

10 whether a motion for leave to amend should be denied: undue

11 delay, bad faith or dilatory motive, futility of amendment, and

12 prejudice to the opposing party. Foman v. Davis, 371 U.S. 178,

13 182 (1962). The Ninth Circuit holds that these factors are not

14 of equal weight; specifically, delay alone is insufficient

15 ground for denying leave to amend. Webb, 655 F.2d at 980.

16 Further, the "liberality in granting leave to amend is not

17 dependent on whether the amendment will add causes of action or

18 parties." DCD Programs, 833 F.2d at 186. Rather, the court

19 should consider whether the proposed amendment would cause the

20 opposing party undue prejudice, is sought in bad faith, or

21 constitutes an exercise in futility. Id. (citing Acri v. Int'l

22 Ass'n of Machinists & Aerospace Workers, 781 F.2d 1393, 1398-99

23 (9th Cir. 1986); United States v. City of Twin Falls, 806 F.2d

24 862, 876 (9th Cir. 1986); Howey v. United States, 481 F.2d 1187,

25 1190-91 (9th Cir. 1973); Klamath-Lake Pharm. Ass'n v. Klamath

26 Med. Serv. Bureau, 701 F.2d 1276, 1293 (9th Cir. 1983)).

27   DISCUSSION

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1   I.   Motion to Amend Counter-Claim

2   Defendants contend that, because Informa is now in

3   possession of the source code that is the subject of its initial

4   counter-claim, the amended counter-claim is compulsory under

5   Federal Rule of Civil Procedure 13(a). Thus, Defendants argue,

6   they would be prejudiced if they were not allowed leave to amend

7   because they would lose the ability to bring the amended claim

8   in the future.

9   The motion for leave to amend is denied because the

10   proposed counter-claim is futile. Defendants' proposed counter-

11   claim would add a claim for copyright infringement against

12   Plaintiff and Informa based upon their use, solely for the

13   purpose of maintaining the web site while this dispute is

14   pending, of source code that is allegedly owned by Defendants.

15   First, the confidentiality agreement entered into voluntarily by

16   the parties and Informa expressly permits both Plaintiff and

17   Informa to operate the web site. Second, the preliminary

18   injunction to which the parties stipulated explicitly allows

19   Plaintiff to continue operating the web site despite the fact

20   that ownership over the alleged source code remains unresolved.

21   The proposed counter-claim alleges a cause of action for

22   copyright infringement arising solely from activity -- the

23   operation of the web site -- to which Defendants have twice

24   agreed in writing. One of those agreements, the preliminary

25   injunction to which Defendants stipulated, is a standing Court

26   order. Defendants have not alleged facts adequate to plead a

27   cause of action for copyright infringement. If, in the future,

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1   Defendants discover facts that could give rise to a claim for

2   copyright infringement, they may move again to amend their

3   counter-claim.

4   For the foregoing reasons, Defendants' motion for leave to

5   amend their counter-claim is denied.

6   II.   Motion for Summary Judgment

7   On April 7, Defendants moved for summary judgment on their

8   initial counter-claim for declaratory relief, arguing that

9   "there is no genuine issue of material fact that [Plaintiff] is

10 not the owner of copyright in the source code and that NJ

11 Pursuits is the owner of said copyright."

12   After Defendants moved for summary judgment on their

13 initial counter-claim, they moved to amend the counter-claim to

14 add Informa as a party and add a counter-claim for copyright

15 infringement. Nevertheless, Defendants argue that the motion to

16 amend their initial counter-claim "in no way affects the current

17 motion because the courts [sic] resolution of the ownership

18 issue would be the same under either motion."

19   Defendants' motion for summary judgment is premature

20 because the parties have conducted very little discovery in this

21 case. As Plaintiff notes, the parties have not exchanged their

22 initial disclosures, nor had the Court, at the time Defendants

23 filed their motion, held an initial case management conference

24 to set dates for discovery cut-offs. Critically, Plaintiff

25 asserts that it has not yet deposed McIntosh in order to

26 challenge, inter alia, his central assertion that he owns the

27 source code at issue here because it was derived from source

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1 code that he developed prior to his business relationship with

2 Plaintiff. It is not even clear what particular source code

3 Defendants claim they own.

4   For the foregoing reasons, Defendants' motion for summary

5 judgment on their initial counter-claim for declaratory judgment

6 is denied as premature.

7   CONCLUSION

8   For the foregoing reasons, the Court DENIES Defendants'

9 motion to amend their counter-claim (Docket No. 30) and DENIES

10 as premature Defendants' motion for summary judgment (Docket No.

11 27).

12   IT IS SO ORDERED.

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14 Dated: 6/13/05   /s/ CLAUDIA WILKEN
                                      CLAUDIA WILKEN
15   United States District Judge

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